INDEX

	Page
Questions Presented	1
Summary of Argument	2
Argument:	
I. The antitrust violation found in this case had no effect on competition in the U.S. grisefulvin market and did not involve patent licenses or practices	8
A. The antitrust violation in this case was a restraint on the resale of bulk griseofulvin	8
B. ICI's antitrust violation was terminated in October, 1967, by its voluntary cancellation of the bulk resale restriction	11
C. The bulk resale restriction in the Glaxo-ICI 1960 agreement was a paper violation, having no effect on ICI's marketing practices or on the U.S. market	11
D. The bulk resale restrictions in ICI's and Glaxo's agreements with AMHO, J & J and Schering were paper violations, having no effect on competition in the U.S. griseofulvin market	12
1. The U.S. griseofulvin market is relatively small, shrinking and competitive	12
2. ICI's and Glaxo's bulk resale violations had no effect on competition in the U.S. griseofulvin market	17
E. Appellees' patent licensing practices were not involved in any antitrust violation	19

Page

II. The District Court properly dismissed the challenge of patent validity initiated by the Attorney General, because it does not have jurisdiction to decide such challenges, except when the patent is procured by fraud. 21

A. Conferring authority on the Attorney General to initiate the challenge of patent validity in antitrust proceedings is not in the public interest 24

1. The challenged ICI patent embodies a true invention that is being challenged only for alleged error by the Patent Office in the allowance of claims, and raises no barrier to entry on the U.S. griseofulvin market 24

2. The patents challenged in this case were not involved in any antitrust violation .. 27

3. Since adequate redress for patent-antitrust violation is available under the Sherman Act, it would unnecessarily bog down antitrust enforcement to introduce extraneous issues of patent invalidity into Sherman Act proceedings 29

B. The District Court properly dismissed the Attorney General's challenge of patent validity, on the ground that it had no jurisdiction to entertain such a challenge 31

1. United States v. American Bell Telephone Company, 167 U.S. 224 (1897) ("the Bell Case"), establishes the rule that the District Court does not have jurisdiction of a challenge by the Attorney General to the validity of a patent, except where the patent was obtained by fraud 31

2. The rule of the Bell case should continue to be followed, because Congress, which has the plenary power to prescribe the jurisdiction of the courts to review Patent Office determinations, has

Page

declined to give the Attorney General any special authority to challenge patent validity 33

3. The District Court has no inherent equity jurisdiction to pass on the validity of patents, except where obtained by fraud 38

4. United States v. United States Gypsum Co., 333 U.S. 364 (1948), permits the Attorney General to attack patent validity only where the patent is relied on as a defense to an antitrust violation 40

5. The District Court's ruling that it had no jurisdiction to entertain the Attorney General's challenge of patent validity was correct 41

C. Issues of patent invalidity are not appealable to this Court under the Expediting Act, unless the patent is relied on as a defense to an antitrust violation 42

III. The District Court properly exercised its discretion in not requiring appellees to sell bulk griseofulvin and to license their griseofulvin patents 44

A. The relief ordered by the District Court is more than adequate to cure the violation and the ill effects of the illegal conduct 44

B. There is no basis in the prior decisions of this Court for the ordering of compulsory sale and patent licensing relief 46

Conclusion 50

CITATIONS

CASES:

Abbott Laboratories v. *Gardner*, 387 U.S. 136 (1967) 34

Addyston Pipe and Steel Co. v. *United States*, 85 Fed. 271 (6th Cir. 1898), *aff'd.*, 175 U.S. 211 (1899) 9

Agrashell v. *Hammons Products Co.*, 413 F.2d 89 (8th Cir. 1969) 25

Page

Alabama Power Co. v. *Alabama Electric Cooperative, Inc.*, 394 F.2d 672 (5th Cir. 1968), *cert. denied*, 393 U.S. 1000 (1968). 37
Besser Manufacturing Company v. *United States*, 343 U.S. 444 (1952) 47, 49
Blonder-Tongue Laboratories, Inc. v. *University of Illinois Foundation*, 402 U.S. 313 (1971) 4, 30
Brown Shoe Company v. *United States*, 370 U.S. 294 (1962) 44
Columbia Gas & Electric Corp. v. *American Fuel & Power Co.*, 322 U.S. 379 (1944). 43
In re Debs, 158 U.S. 564 (1895) 39
Eisenstadt v. *Baird*, 31 L. Ed. 2d 349 (1972) 21
Flood v. *Kuhn*, 32 L. Ed. 2d 728 (1972) 37
Ford Motor Co. v. *United States*, 31 L. Ed. 2d 492 (1972) 7, 30, 44, 45, 46
Gardner v. *Toilet Goods Association*, 387 U.S. 167 (1967). 34
Graham v. *John Deere Co.*, 383 U.S. 1 (1966). 3, 24, 26, 36
Great A&P Tea Co. v. *Supermarket Equipment Corp.*, 340 U.S. 147 (1950). 3, 26
Hartford-Empire v. *United States*, 323 U.S. 386 (1945), *clarified*, 324 U.S. 570 (1945) 30, 49
Hawaii v. *Standard Oil Co. of Calif.*, 31 L. Ed 2d. 184 1972. ..... 22, 38
Heikkila v. *Barber*, 345 U.S. 229. (1953). 34
Home Life Insurance Co. v. *Dunn*, 86 U.S. (19 Wall.) 214 (1874). 5, 33
Illinois v. *City of Milwaukee*, 31 L. Ed. 2d 712 (1972) 39
International Boxing Club of New York, Inc. v. *United States*, 358 U.S. 242 (1959) 46, 47
International Salt Co. v. *United States*, 332 U.S. 392 (1947) 7, 44, 46, 47
Katzinger (Edward) Co. v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947) 41
Kelly v. *Kosuga*, 358 U.S. 516 (1959) 6, 35, 42
Kendall v. *Winsor*, 62 U.S. (21 How.) 322 (1859) 27
Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) 3, 26, 41
MacGregor v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402 (1947) 41
McClurg v. *Kingsland*, 42 U.S. (1 How.) 202 (1843)... 5, 35
Mowry v. *Whitney*, 81 U.S. (14 Wall.) 620 (1872). 25
Nashville v. *Cooper*, 73 U.S. (6 Wall.) 247. (1868). 33

Page

NLRB v. *Cheney California Lumber Co.*, 327 U.S. 385 (1946). 34
Perma Life Mufflers, Inc. v. *International Parts Corp.*, 392 U.S. 134 (1968). 23
Poller v. *Columbia Broadcasting System, Inc.*, 368 U.S. 464 (1962). 25
Rural Electrification Administration v. *Northern States Power Co.*, 373 F.2d 686 (8th Cir. 1967), *cert. denied*, 387 U.S. 945 (1967). 37
S&E Contractors, Inc. v. *United States*, 31 L. Ed.2d 658 (1972). 34, 38, 40
Sanitary District of Chicago v. *United States*, 266 U.S. 405 (1925). 39
Scanwell Laboratories, Inc. v. *Shaffer*, 424 F.2d 859 (D.C. Cir. 1970). 21
Schilling v. *Rogers*, 363 U.S. 666 (1960) 34
Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945). 41
Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964). 3, 26, 27
Shenandoah Valley Broadcasting, Inc. v. *American Society of Composers, Authors, and Publishers*, 375 U.S. 39 (1963). 43
Sierra Club v. *Morton*, 31 L. Ed. 2d 636 (1972). 21
Simpson v. *Union Oil Co.*, 377 U.S. 13 (1964). 23
Snyder v. *Harris*, 394 U.S. 332 (1969). 33
Sola Electric Co. v. *Jefferson Electric Co.*, 317 U.S. 173 (1942). 41
Standard Oil Co. v. *United States*, 283 U.S. 163 (1931) 29, 30
Stone v. *United States*, 69 U.S. (2 Wall.) 525 (1865). 33
Switchmen's Union v. *National Mediation Board*, 320 U.S. 297 (1943). 34
Tacoma v. *Taxpayers of Tacoma*, 357 U.S. 320 (1958) 34
Triplett v. *Lowell*, 297 U.S. 638 (1936). 30
United States v. *American Bell Telephone Co.*, 128 U.S. 315 (1888). 32, 38
United States v. *American Bell Telephone Co.*, 159 U.S. 548 (1895). 32
United States v. *American Bell Telephone Co.*, 167 U.S. 224 (1897) 4, 5, 6, 22, 31, 32, 33, 36, 37, 38, 42
United States v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). 9, 10, 11

Page

United States v. *Arnold, Schwinn & Co.*, 291 F. Supp. 567 (N.D. Ill. 1968) 11, 45
United States v. *Bausch & Lomb Optical Co.*, 45 F. Supp. 387 (S.D.N.Y. 1942), *aff'd.*, 321 U.S. 707 (1944) 9
United States v. *Borden Co.*, 347 U.S. 514 (1954). 23
United States v. *Columbia Pictures Corp.*, 189 F. Supp. 153 (S.D.N.Y. 1960). 9
United States v. *Cooper Corp.*, 312 U.S. 600 (1941). 6, 23, 35, 42
United States v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933). 26
United States v. *Duell*, 172 U.S. 576 (1899) 5, 36
United States v. *Du Pont*, 353 U.S. 586 (1957) 45, 46
United States v. *Du Pont*, 366 U.S. 316 (1961) 44, 45
United States v. *Farbenfabriken Bayer A.G.*, 1969 Trade Cases, Para. 72, 918 (D.D.C.) 45
United States v. *IBM*, 1956 Trade Cases, Para 68, 245. 31
United States v. *Interstate Commerce Commission*, 337 U.S. 426 (1949) 43
United States v. *Loew's Inc.*, 371 U.S. 38 (1962). 49
United States v. *3M*, 1969 Trade Cases, Para. 72,865... 31
United States v. *National Lead Co.*, 332 U.S. 319 (1947). 7, 45, 46, 49
United States v. *RCA*, 1958 Trade Cases, Para. 69,164. 31
United States v. *Republic Steel Corp.*, 362 U.S. 482 (1960). 39
United States v. *Rice*, 327 U.S. 742 (1946) 33
United States v. *San Jacinto Tin Co.*, 125 U.S. 273 (1888). 33, 39
United States v. *St. Regis Paper Co.*, 285 F.2d 607 2d Cir. 1960), *aff'd on other grounds*, 368 U.S. 208 (1961). 43
United States v. *Sealy, Inc.*, 388 U.S. 350 (1967). 9
United States v. *Singer Mfg. Co.*, 374 U.S. 174 (1963) 3, 26, 27, 44
United States v. *Standard Electric Time Co.*, 155 F. Supp. 949 (D. Mass. 1957). 37
United States v. *United States Gypsum Co.*, 333 U.S. 364 (1948) 5, 6, 23, 30, 40, 41, 42, 43

Page

United States v. *United States Gypsum Co.*, 340 U.S. 76 (1950) 45, 49
United States v. *United Shoe Machinery Corp.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd. per curiam* 347 U.S. 521 (1954) 47
Walker Process Equipment, Inc. v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) 6, 41
Webster Loom Co. v. *Higgins*, 105 U.S. (15 Otto) 580 (1882) 25
D. R. Wilder Mfg. Co. v. *Corn Products Refining Co.*, 236 U.S. 165 (1915) 34, 35
In re Wiggins, 397 F.2d 356 (C.C.P.A. 1968) 25
Wyandotte Transportation Co. v. *United States*, 389 U.S. 191 (1967) 39

CONSTITUTION AND STATUTES:

United States Constitution:

Article I, Section 8, Clause 8 27
Article I, Section 8, Clause 18 36

Clayton Act:

Section 7, 15 U.S.C. 15 35

Expediting Act of February 11, 1903, Sections 1, 2, 32 Stat. 823, as amended, 15 U.S.C. 28, 29 ..... 6, 43

Patent Code:

Section 100(b), 35 U.S.C. 100(b) 25
Act of Mar. 2, 1927, 44 Stat. 1335-7 36
Act of Mar. 3, 1927, 44 Stat. 1394 36
Act of Mar. 2, 1929, 45 Stat. 1475 36
Act of Aug. 5, 1939, 53 Stat. 1212, c. 451 36
Act of Mar. 4, 1950, 64 Stat. 11, c. 50 36
Act of Oct. 31, 1951, 65 Stat. 728, c. 655 36

Sherman Act, 26 Stat. 209, as amended:

Section 1, 15 U.S.C. 1 ..... 8, 10, 47
Section 2, 15 U.S.C. 2 ..... 7, 41, 46, 47

28 U.S.C. 1498 ..... 6, 38
28 U.S.C. 2201-2 38

MISCELLANEOUS: Page

British Medical Journal 1165 (1959) 24
British Medical Journal 1659 (1963) 24
21 Code of Federal Regulations, Ch. 1, Part 133 ("good manufacturing practices") 13
Comment, Interference with Navigation, 59 Columbia L. Rev. 1065, 1067 (1959) 39
Cooper, ed., The Economics of Drug Innovation (1969) 116, 117, 120 13
Hamilton, Patents and Free Enterprise, TNEC Monograph No. 31, 24-25 (1941) 24
Hildrick-Smith, Fungus Diseases and Their Treatment 53 (1964) 24
House of Rep. Doc. No. 239, 78th Cong., 1st Sess. (1943) 37
President Washington's First Annual Address, 30 Writings of Washington 491, 493 (1939) 24
Proposed Revision and Amendment of Patent Laws: Preliminary Draft With Notes, House of Rep. Committee on the Judiciary (1950) 37
Report of Sen. Judiciary Subcommittee on Patents, Trademarks and Copyrights, Sen. Rept. No. 92-935, 92d Cong., 2d Sess. (1972) 37
Rule 12(c) of the Federal Rules of Civil Procedure 32
S. Res. 92, Sen. Rept. No. 1464, p. 13, 84th Cong., 2d Sess. (1956) 37
Sen. Doc. No. 5, 90th Cong., 1st Sess., pp. 37-38 (1966) 37
S. 643, 92d Cong., 1st Sess. (1971) 37
1971 Drug Topics Red-Book 25 14

IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

No. 71-666

UNITED STATES OF AMERICA, *Appellant*

v.

GLAXO GROUP LIMITED, AND IMPERIAL CHEMICAL INDUSTRIES, LIMITED

On Appeal from the United States District Court for the District of Columbia

---

BRIEF OF APPELLEE IMPERIAL CHEMICAL INDUSTRIES, LIMITED

QUESTIONS PRESENTED

1. Whether the Attorney General, in prosecuting an antitrust complaint, has the authority to initiate, and the District Court the jurisdiction to entertain, a challenge to the validity of a patent issued by the Patent Office, except where the patent is relied on as a defense to the alleged antitrust violation.

2. Whether in a Section 1 Sherman Act case where the violation

(a) consisted of a restriction by the defendants on the bulk resale of a drug by their vendees,

(b) was terminated before the commencement of the suit,

(c) had no effect on competition in the market for the drug, and

(d) did not involve illegal patent licensing practices,

the District Court erred in not requiring the defendants to sell the drug on reasonable and nondiscriminatory terms to all *bona fide* applicants and to license the patents relating to the drug at reasonable royalties.

SUMMARY OF ARGUMENT

I.

The antitrust violation in this case was a restraint on the resale of bulk form griseofulvin, and did not involve appellees' patent licensing practices. This bulk resale restriction was voluntarily cancelled by appellee Imperial Chemical Industries, Limited (ICI) five years ago, four months before the complaint in this case was filed, and by Glaxo shortly afterwards. Prior to its termination, the bulk resale violation was a paper one that had no effect on competition in the U.S. griseofulvin market, which, because of its relatively small, shrinking and competitive nature, did not attract new entrants.

II.

The determinative question in the present case is whether the Attorney General, in prosecuting an antitrust complaint, has the authority to initiate, and the

District Court the jurisdiction to entertain, a challenge to the validity of a patent issued by the Patent Office, except where the patent is relied on as a defense to the alleged violation. This question must be answered in the negative, because the Congress, which has the constitutional power to prescribe the jurisdiction of the District Court to review the determinations of the Patent Office, has not conferred such a jurisdiction on the District Court.

A. Injecting into the present antitrust suit a challenge of the validity of the ICI griseofulvin patent does not serve the public interest. That patent embodies a true invention, and is not being challenged on grounds of lack of novelty or utility or of obviousness, which are the accepted criteria of patentability, see *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966), but for alleged error of judgment by the Patent Office in the allowance of patent claims. The ICI patent gives the public a "novel and useful invention" and "adds to the sum of useful knowledge" see White, J., concurring in *United States* v. *Singer Mfg. Co.*, 374 U. S. 174, 199 (1963); *Great A&P Tea Co.* v. *Supermarket Equipment Corp.*, 340 U.S. 147, 152 (1950). Hence there does not exist here "the public's interest in the elimination of specious patents," *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 674 (1969), nor the assertion of any right under state law to defeat the requirements of the U.S. Patent Code, such as were involved in *Lear* and in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964). Moreover, since the ICI patent has been licensed to five companies on reasonable terms and conditions, it poses no barriers to competition on the U.S. griseofulvin market.

If the Attorney General were correct in contending that he could challenge patents solely on the ground

that they were "involved in illegal restraints of trade," the present challenge to the ICI and Glaxo patents must fail, because there is no basis in the record of this case to support a finding that the challenged patents were thus involved. Nor is there any support for the Attorney General's argument that appellees unreasonably restrained trade in violation of the antitrust laws by unlawful or restrictive licensing practices.

Application of the standard suggested by the Attorney General would not be in the public interest, for it would allow issues of patent invalidity to be injected into Sherman Act proceedings, even though those issues had no relevance to the proof of the antitrust violation. Adequate redress for patent-antitrust violation is available under the Sherman Act in the form of compulsory patent licensing on a reasonable royalty basis, with a provision for court review of the reasonableness of the royalties requested by the defendants and the validity or scope of the licensed patents. The expensive and time-consuming trial of extraneous issues of patent validity (see *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation,* 402 U.S. 313, 336 (1971), would unnecessarily bog down antitrust enforcement. Moreover, it is inequitable that an antitrust defendant, in addition to answering charges of antitrust violation, should unnecessarily be put to the burden of defending extraneous challenges of patent validity.

B. The *Bell* case, *United States* v. *American Bell Telephone Co.,* 167 U.S. 224 (1897), establishes the general rule that the District Courts do not have jurisdiction to entertain a challenge by the Attorney General to the validity of a patent, except where the patent was obtained by fraud on the Patent Office. The basis

for the general rule is that for the courts to entertain such challenges would be an attempt on their part "in collateral attack to exercise an appellate jurisdiction over the decisions of the patent office, although no appellate jurisdiction has been by the statutes conferred" (see p. 269). The basis for the exception permitting cancellation in the case of fraud is the inherent equity jurisdiction of the courts, a jurisdiction which does not extend to challenges of patent validity on other grounds.

The rule of the *Bell* case is sound and should continue to be followed. It is in accord with the plenary powers vested in the Congress by the Constitution to prescribe the jurisdiction of the inferior courts, *Home Life Insurance Co.* v. *Dunn,* 86 U.S. (19 Wall.) 214, 226 (1874), and to legislate on the subject of patents, by providing the administrative and judicial "instrumentalities" best calculated to secure to inventors the exclusive rights to their discoveries, *McClurg* v. *Kingsland,* 42 U.S. (1 How.) 202, 206 (1843); *United States* v. *Duell,* 172 U.S. 576, 583 (1899). Congress has established a comprehensive and detailed scheme, developed and revised by it continuously since 1790, for the administrative and judicial review of patent applications and patents, and has not included within that scheme a right on the part of the Attorney General to challenge patent validity. Absent a clear signal from Congress, there is no warrant for judicially amending the Patent Code and expanding the jurisdiction of the District Court to entertain a collateral attack by the Attorney General on the validity of a patent issued by the Patent Office.

United States v. *United States Gypsum Co.,* 333 U.S. 364 (1948), permits the Attorney General to attack

patent validity only where the patent is relied on as a defense to an antitrust violation. This is consistent with the rule of the *Bell* case, for it permits the District Courts to decide challenges of patent validity where their failure to do so would frustrate the statutory jurisdiction of the courts to enforce the Sherman Act, cf. *Walker Process Equipment Co., Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Even where the public interest in enforcing the Sherman Act was directly involved, this Court has refused to allow the District Courts to enforce antitrust remedies that were not expressly prescribed by the Congress, see *Kelly* v. *Kosuga*, 358 U.S. 516 (1959); *United States* v. *Cooper Corp.*, 312 U.S. 600 (1941).

C. Except in *Gypsum*-type situations where a patent is relied on as a defense to an antitrust violation, the Attorney General's challenge of patent validity is not an action in equity (or akin to equity) to restrain violations of the Sherman Act "or any other Act[s] having a like purpose." Nor does it serve the purpose of Section 2 of the Expediting Act to expedite antitrust litigation of "great and general importance." Patent litigation of this type is therefore not the subject of a direct appeal from the District Court to this Court, but is screened through the Courts of Appeals.

III.

A. On the record of this case, the bulk resale restriction had no effect on competition in the U.S. griseofulvin market, which, although small and shrinking, was competitive and unattractive to new entrants. The District Court applied the correct standard to this case, that of devising a remedy which was "as effective and fair as possible in preventing continued or future

violations of the Antitrust Act in the light of the facts of the particular case," *United States* v. *National Lead Co.*, 332 U.S. 319, 335 (1947), and which would serve "to cure the ill effects of the illegal conduct, and assure the public freedom from its continuance," *Ford Motor Co.* v. *United States*, 31 L. Ed. 2d 492, 501 (1972). The framing of antitrust decrees should take place in the District Court, *International Salt Co.* v. *United States*, 332 U.S. 392, 401 (1947), and there is no basis for disturbing the District Court's exercise of discretion in ordering relief which was more than adequate to cure the effects of the illegal conduct.

B. The drastic remedy of compulsory sale has been applied only to situations where defendants have monopolized a market in violation of Section 2 of the Sherman Act and the illegal monopolization had been accomplished by a refusal to sell or lease. It is not appropriate to this case, where "[t]he evidence did not show that a current monopoly condition exists as a result of the bulk resale restriction" (J.S. 68).

The Government's case for compulsory licensing of the griseofulvin patents is largely predicated on the incorrect premise that it is entitled to compulsory sales relief. Compulsory patent licensing has been awarded only in situations where the defendants have engaged in illegal licensing practices, with proven anti-competitive consequences. It is not appropriate in this case, where there are no illegal licensing practices, and the Court properly found no showing that "the defendants' current licensing practices are related to the adjudged antitrust violation" or that "either Glaxo or ICI has abused its patent rights" (J.S. 69).

ARGUMENT

I.

THE ANTITRUST VIOLATION FOUND IN THIS CASE HAD NO EFFECT ON COMPETITION IN THE U.S. GRISEOFULVIN MARKET AND DID NOT INVOLVE PATENT LICENSES OR PRACTICES

The Government has expressly limited its right to challenge patent validity to "patents involved in illegal restraints of trade" (see its Brief, pp. 2, 21). It has based its claim to additional compulsory sale and patent licensing relief on the argument that "these additional provisions are essential to achieve what is necessary to cure the violations found" (*ibid.*, p. 45) and to "cure the ill effects of the illegal conduct" (*ibid.*, pp. 43-44). Hence, the resolution of the issues tendered on this appeal calls for the consideration of the nature and effect of the antitrust violations found by the District Court.

A. The Antitrust Violation in This Case Was a Restraint on the Resale of Bulk Griseofulvin

The District Court's holding, in its June 4, 1969 opinion, that ICI had violated the Sherman Act was pursuant to the Government's Motion for Partial Summary Judgment on Restraint of Alienation Issue, in connection with which the Government formally stated:

> "The only genuine issue presented in this motion is whether ICI's imposition on its *vendee* AMHO of a restraint on the alienation of griseofulvin is illegal under Section 1 of the Sherman Act (15 U.S.C. Section 1)" (App. 262)[1] (emphasis supplied).

ICI, a British corporation engaged in the manufacture and sale of drugs in the United Kingdom, had on

---

[1] "App." refers to the separately bound Appendix. "J.S." refers to the Government's Jurisdictional Statement, in which opinions, orders and judgments pertinent to this appeal are printed.

September 12, 1958, executed a contract appointing American Home Products Corporation (also referred to as "AMHO" or "Ayerst") the sole importer, processor and distributor of its drug products in the United States and stating the terms and conditions of AMHO's exclusive distributorship (App. 144-148).[2] On December 19, 1962, ICI executed a further distribution agreement with AMHO for griseofulvin, adding it to the list of products to be distributed and containing additional terms and conditions of sale applicable to that product (App. 149-152). The Government's motion was directed against a single provision of the latter agreement, the so-called bulk resale restriction, reading as follows:

> "You [AMHO] will not, without first obtaining our [ICI's] consent, resell or redeliver in bulk supplies of griseofulvin" (App. 150, Par. 7; J.S. 27, No. 6).

Defendant ICI brought a cross-motion to dismiss the Government's complaint, on grounds of mootness and that the bulk resale restriction was reasonably ancillary to its exclusive distributorship agreement with AMHO.[3]

---

[2] ICI had to have an exclusive U. S. distributor because it did not have and could not develop except at a financially prohibitive cost, considering its few drug products, a U. S. organization with qualified and knowledgeable medical and sales staff capable of penetrating the U. S. market (App. 347-348).

[3] The "reasonable ancillary restraint" defense was based on *Addyston Pipe and Steel Co.* v. *United States*, 85 Fed. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899); *United States* v. *Columbia Pictures Corp.*, 189 F.Supp. 153 (S.D.N.Y. 1960) (endorsed by the Solicitor General in his Supreme Court brief (p. 26) in *United States* v. *Sealy, Inc.*, 388 U.S. 350 (1967), a companion case to the *Schwinn* case cited on p. 10, below); and *United States* v. *Bausch & Lomb Optical Co.*, 45 F.Supp. 387 (S.D. N.Y. 1942), *aff'd*, 321 U.S. 707 (1944).

In granting the Government's, and denying ICI's motion, Judge Gasch found, as an ultimate fact, that the bulk resale restriction constituted "a reservation of power in the seller to control when, where, to whom and under what conditions the bulk form might be resold" (J.S. 31). He held that this restriction was a *per se* violation of Section 1 of the Sherman Act, under the doctrine laid down in *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967) (J.S. 25-42).

Subsequently, the Government brought another motion for partial summary judgment attacking similar bulk resale provisions in the agreements between Glaxo and two U. S. firms, Johnson & Johnson ("J & J") and Schering (App. 102, Par. 3(c); 117, Par. 3(c)). In an order dated November 20, 1969, District Judge Sirica held these restrictions to be in *per se* violation of the Sherman Act (J.S. 58-59).

Later, the Government brought a third motion for partial summary judgment attacking a provision in an April 26, 1960 agreement between Glaxo and ICI,[4] under which, *inter alia,* ICI agreed that it would not permit its vendees to resell bulk griseofulvin purchased from ICI (App. 132, Par. 4(e)). In an order dated April 20, 1970, District Judge McGuire held this restriction to be *per se* a violation of Section 1 of the Sherman Act insofar as it applied to ICI's U. S. vendees (J.S. 60).

---

[4] This comprehensive agreement, executed in the U. K. by two British corporations, made possible the manufacture and sale of griseofulvin in the U. K. and in the rest of the world generally; it was not specially directed to the U. S. market (App. 128-143). See also p. 19, fn. 19, below.

B. ICI's Antitrust Violation Was Terminated in October, 1967, by Its Voluntary Cancellation of the Bulk Resale Restriction.

In October, 1967, four months before the filing of the complaint in this case and only four months after this Court decided *Schwinn, supra,* p. 10.[5] ICI, as soon as the matter was brought to its attention, without consulting or otherwise referring the matter to Glaxo, voluntarily cancelled the bulk resale restriction, not only in the griseofulvin distribution agreement but in eight other drug distribution agreements with AMHO, its exclusive U. S. distributor (J.S. 28; App. 48-49, 319-320). ICI filed undisputed affidavits, supporting the *bona fides* and continuing effectiveness of this cancellation, that both the intention and the effect of the cancellation had been to eliminate any restriction or influence over AMHO's resale of bulk griseofulvin (J.S. 28, No. 14; App. 320-321, 350). The cancellation had the immediate effect of terminating the antitrust violations found by Judges Gasch and McGuire.[6]

C. The Bulk Resale Restriction in the Glaxo-ICI 1960 Agreement was a Paper Violation, Having no Effect on ICI's Marketing Practices or on the U.S. Market.

The bulk resale restriction in the Glaxo-ICI 1960 agreement—that ICI exercise its best efforts to prevent its vendees from reselling bulk griseofulvin (App. 132-132a)—had no practical consequences. It had been

---

[5] Concerning this Court's opinion in *Schwinn,* the Chicago District Court has said, on remand: — "The law is not clear or certain, and only since the opinion of the Supreme Court has the law been clear enough for these defendants to act with certainty," 291 F. Supp. 568 (1968).

[6] The bulk resale restrictions in the Glaxo agreements with Schering and J & J were voluntarily cancelled, and the violations terminated, on April 23, 1968 and April 29, 1968, respectively (App. 362).

the general routine practice of ICI, which sold drugs in over 100 countries, to include bulk resale restrictions in all its agreements (J.S. 29, 63; App. 348). Just as ICI's cancellation of the bulk resale restriction did not await Glaxo's consent (J.S. 28, No. 13), ICI's insertion of the restriction in its agreements was independent of Glaxo's practice; had the Glaxo-ICI agreement not existed, the ICI-AMHO griseofulvin agreement would still have contained a bulk resale restriction.[7] Moreover, when ICI cancelled the bulk resale restriction in the AMHO griseofulvin agreement, it simultaneously cancelled identical restrictions in seven other AMHO drug distribution agreements which antedated the griseofulvin one and did not involve Glaxo (App. 49).

D. The Bulk Resale Restrictions in ICI's and Glaxo's Agreements with AMHO, J & J and Schering were Paper Violations, Having no Effect on Competition in the U.S. Griseofulvin Market.

1. The U. S. Griseofulvin Market Is Relatively Small, Shrinking and Competitive

The U. S. market for griseofulvin has been built up over the past ten years by AMHO, Schering and J & J, firms engaged in the business of making and distributing pharmaceutical products to the medical and pharmaceutical professions in final dosage form for administering to patients on a physician's prescription (App. 353, 363). The volume of business done on this retail market is relatively small and has been declining, from an annual total of $7,985,000 in 1967 to $6,712,000 in 1969 (App. 353, 408; see also App. 236-7). The shares of AMHO, Schering and J & J in this market

---

[7] See App. 351-352, specifically contradicting the Government's contrary contention on page 11, fn. 16, of its brief.

are fluctuating, with AMHO accounting for from 15% to 25% of the total during the period 1965 to 1969 (*ibid.*). About one quarter of this market consists of Government sales (subject to competitive bidding), where AMHO's sales in 1967 were only 2.2% of the total (App. 237).

Before AMHO, J & J and Schering introduced griseofulvin on the market, they had to engage in expensive animal and human pharmacology, toxicology and broad clinical testing and evaluation in order to obtain Food and Drug Administration ("FDA") approval for the drug.[8] After the drug was introduced, they maintained staffs that provided technical and medical information to the medical profession "in order that these products and their medical indications and side effects may become known to the profession and a demand created for their prescription and sale in the United States" (App. 355). In addition to their advertising and promotional expense, these companies incurred other operating expenses in connection with research and development and testing facilities; continuing quality controls to insure compliance with detailed FDA antibiotic regulations (see 21 C.F.R. 133); importing the bulk drug from the U.K.; clearing it through customs; processing it into dosage form; warehousing the product through to national distribution;

---

[8] See App. 146-7; 354-355. It is estimated that the research necessary to obtain FDA approval costs approximately 2½ to 4½ million dollars for each approved New Drug Approval ("NDA") and takes from five to seven years. Moreover, for every NDA approved by the FDA, it is estimated that approximately eight or nine research projects are aborted, thereby further magnifying the research expenditure for each successful NDA. Clymer, *The Changing Costs and Risks of Pharmaceutical Innovation*, Ch. 6 in *The Economics of Drug Innovation* (Cooper, ed. 1969 pp. 116, 117, 120).

and (in the case of AMHO) processing the drug into microsize form (App. 354-356; 328).

Glaxo's and ICI's only relation to the U. S. market is that of supplying its bulk griseofulvin needs, which they do at respective selling prices that differ from each other by as much as 30% (App. 48, 62, 349-350).[9] Glaxo and ICI have no control over the selling price of dosage form griseofulvin, whether sold to the government or to the retail druggist. There is nothing in the record to indicate that AMHO, J & J and Schering sell at substantially identical prices for distribution to retail druggists or that price reductions and vigorous price competition do not take place, as claimed on pages 46 and 48 of the Government's brief.[10]

The Government sought, both by depositions and by interrogatories, to find out whether any firms had been interested in entering the U. S. market. Prior to September, 1968, neither ICI nor AMHO had received any requests from U. S. companies for commercial supplies of bulk griseofulvin for U. S. use, and AMHO had no occasion to ask ICI for its consent to resell the drug (App. 154-156, 322, 350-351, 353). In February, 1968, a junior official of Allergan Pharmaceuticals, acting on his own account, inquired as to the availability of bulk griseofulvin; depositions taken in Los Angeles estab-

---

[9] There is evidence in the record that supplies of bulk would be available from Italy, Japan and possibly Russia, were it not for the expense and difficulty of obtaining FDA approval for the imported drug (App. 175, 199-201, 207-214).

[10] The prices shown in the one reference cited by the Government (App. 238) are not the prices these firms quote on their direct sales to retailers, but only the prices they suggest for sale by wholesalers to the retail druggist, from which the wholesalers are free to deviate, see *1971 Drug Topics Red Book*, p. 25.

lished that Allergan's officers regarded the U. S. griseofulvin market as unattractive and had no interest in entering it (App. 156, 350-351, 451-457). Officers of the only other firm (excluding AMHO, Schering and J & J) from which the Government took depositions, Abbott Laboratories of Chicago, also testified that they had no interest, during the 1960-1962 period, in entering the griseofulvin market, because of its small size and prior occupation by three established competitors, who at one time were cutting each other's prices by 20% (App. 322, 232, 457-463).

None of the four independent or generic houses that have filed affidavits supporting the Government's prayer for compulsory sale relief (for purposes of convenience referred to hereafter as "affiant firms") showed any interest in entering the griseofulvin market until a year or so after the cancellation of the bulk resale restrictions and commencement of this suit (App. 162, 171, 217, 225-6).[11] The business of these houses consists of "buying antibiotics in bulk, converting them into dosage form, and selling the packaged product to other pharmaceutical companies which distribute the finished packaged product" (App. 215, 328-329).[12]

When, in 1969, the generic and independent houses began to be interested in buying griseofulvin, AMHO

---

[11] The record does not support the Government's contention (see page 11 of its brief) that the generic and independent firms were unable to secure supplies of griseofulvin, but shows that no such firm even requested such supplies prior to September 16, 1968 (App. 154-156, 44, 54-55). See also p. 14, fn. 9, above.

[12] These companies can undersell AMHO, Schering and J & J because their operations are fewer and simpler and do not involve the heavy laboratory, clinical testing, operating and advertising costs of their larger competitors (see p. 13, above; J.S. 67, fn. 24).

quoted prices in response to some fifteen different inquiries for griseofulvin, eight of them with respect to bulk microsize griseofulvin, the form most frequently desired (App. 354, 412-413). In the short period before the relief hearings in this case, two of the affiant firms, Owen and Zenith, had purchased from AMHO, for resale, microsize dosage form griseofulvin; they now account for 1½% of the U. S. market (App. 353). Two other firms, West-Ward, Inc. and Sandoz-Wander, have placed orders for bulk microsize for experimental purposes, indicating a possible interest in its purchase (App. 412, 424-428).

The evidence does not support the Government's contention that AMHO's prices were "exorbitant" (see p. 11 of its brief). AMHO paid ICI $78 per kilogram for regular size bulk griseofulvin and offered it for resale to other drug firms at $117 per kilogram.[13] The Government states that the prevailing price to the retail druggist of the dosage form of the drug is $416

---

[13] The factory cost to AMHO was 78% of its offering price to the trade, which gave it a net return after taxes of approximately 11.4%, from which it had to defray unallocated costs such as research and development, administrative and distribution expenses, medical detailing and promotion, etc. (App. 436). AMHO's price includes all royalty payments due ICI and gives the purchaser the valuable right, when clearing his own product with the FDA for safety and efficacy, to refer to the technical data already submitted by AMHO—a considerable saving in time and expense (App. 354-355; p. 13, fn. 8, above). Chromalloy-American, one of the offerees, has written that "the pricing on the bulk would be satisfactory" (App. 415-416); one affiant firm has written that the bulk price quoted by AMHO "is a bit higher than the price on a direct basis from Glaxo or ICI" (App. 175); and, as noted, two other affiants have purchased dosage form griseofulvin from AMHO.

per kilogram;[14] it should be relatively easy for the independent house, with its limited functions and far lower costs, to undercut this price. Dissatisfaction with AMHO's prices has been registered only by the affiant firms, who foresee for themselves a rapidly expanding role in the griseofulvin market,[15] provided, they say, they can buy griseofulvin at a low enough price to enable (a) *both* them *and* their distributors to make a profit and (b) their distributors to resell the drug to retail druggists at a price 33⅓% below that of the AMHO, J & J and Schering product (App. 222, 386, 388, 410).[16]

2. ICI's and Glaxo's Bulk Resale Violations Had No Effect on Competition in the U. S. Griseofulvin Market

ICI's and Glaxo's bulk resale violations in this case had no effect on their vendees or on their vendees' competitors. The vendees, AMHO, Schering and J & J,

---

[14] As noted, this record does not show the actual prices at which either AMHO or AMHO's wholesalers sell to the retail druggist, see p. 14, fn. 10, above.

[15] One affiant firm, with $1.6 million annual sales for all its drug products, has an "extremely conservative" estimate of capturing $1 million annual sales and a 10% market share (App. 215, 222). Another, with $3 millinon of total sales, says "it could rapidly achieve a 10% to 20% penetration of the griseofulvin market" (App. 226). After eight years of a large investment in developing the griseofulvin market, AMHO, with $430 million of annual prescription drug sales, has obtained $1,600,000 of annual sales of griseofulvin and an uncertain 23.7% of the market (App. 355, 410).

[16] ICI has characterized these affidavits as unsubstantiated, conclusory and speculative (App. 328-332), and Judge Gasch has said they "show[s] only that there are other drug companies in the United States that would endeavor to enter the griseofulvin market if they could purchase bulk supplies from Glaxo or ICI on the same terms as their present vendees" (J.S. 67-68).

are in the business of selling dosage, not bulk form, drugs (see App. 353, 363 and cited affidavits, and pp. 12 to 13, above).[17] The Government, in response to an interrogatory, stated no fact indicating that, but for the bulk resale restriction, Glaxo, ICI, AMHO, Schering or J & J would have, or been likely to have, offered bulk griseofulvin to independent U. S. third parties prior to the cancellation of the bulk resale restriction (App. 230-234). Also, ICI could not have sold griseofulvin to any U. S. firm without breaching its legal and binding exclusive distributorship contract with AMHO (see pp. 8-9, above; App. 60, 326-327, 347).[18]

As pointed out earlier, the U. S. griseofulvin market, although competitive, was small and unattractive to possible entrants, so that, prior to the cancellation of

---

[17] AMHO, with a total 1969 sales volume of $430 million, showed bulk sales of less than $10,000, and had similar eye dropper figures for prior years (App. 239-240). Contrary to the Government's claim on pages 14-15 of its brief, the vendees' bulk sales were insubstantial (App. 407-410).

[18] In the case of Glaxo, the Government has made allegations concerning Schering's and J & J's objection to Glaxo's licensing a third drug company (see p. 14 of the Government brief). These allegations do not involve either ICI or AMHO, and are not related to the bulk resale violation. Presumably, they relate to an alleged antitrust violation in the form of a conspiracy (not involving either ICI or AMHO) to boycott a third drug firm, which the Government attempted, in its motion to amend the complaint, to add to the complaint (App. 26). This part of the motion was also denied by the District Court (J.S. 51-52), and has not been appealed from. Despite the Government's intensive discovery, including some taking place on the eve of the relief hearings (App. 406-407), and the "ponderous record" compiled in this case (J.S. 51), the Government made no effort to depose the officials of this third company or otherwise establish the nature or existence of the alleged boycott.

the bulk resale restriction, third parties did not in fact request supplies of bulk griseofulvin from either ICI, Glaxo or their U.S. vendees (see pp. 14-15, above). After the bulk resale restrictions were terminated, AMHO, upon receiving requests, quoted reasonable prices to all interested parties (see pp. 15-17, above), while J & J and Schering adhered to their prior practice of staying out of the bulk drug business. Given all the foregoing factors, it is fair to conclude that the ICI and Glaxo bulk resale restrictions were paper violations, having no effect on competition in the U.S. griseofulvin market.

E. Appellees' Patent Licensing Practices Were Not Involved in any Antitrust Violation.

In his opinion on liability of June 4, 1960, Judge Gasch said—"The case has not been characterized as a patent misuse, patent licensing, or know-how licensing problem" (J.S. 37; see also J.S. 38).[19] In his opinion on remedies of June 17, 1971, he found that "there has

---

[19] The Government had chosen not to tender for adjudication the allegations in its complaint that ICI and Glaxo had pooled their patents and licensed them in a manner which illegally restrained trade (App. 8, Pars. 21, 22), allegations denied both by ICI and Glaxo (App. 14, 19). ICI, in its answer and in a comprehensive reply to Governments' Interrogatory No. 70, pointed out that the 1960 patent cross-licensing ("pooling") arrangements between Glaxo and ICI were necessary because the parties held blocking patents on the manufacture in the United Kingdom of bulk griseofulvin (owned by Glaxo) and of dosage form griseofulvin (owned by ICI); without such arrangements, neither Glaxo nor ICI would have been able commercially to manufacture bulk griseofulvin in the U.K. Without Glaxo and ICI having the right to sub-license each other's U.S. patents to AMHO, Schering and J & J, griseofulvin sales on the U.S. market would be blocked. See App. 56-58; see also App. 55-56 and 52-53.

been no showing that either Glaxo or ICI has abused its patent rights" (J.S. 69).[20]

There is no reference to patent licensing practices or patent misuse in either Judge Sirica's or Judge McGuire's orders of November 20, 1969 and April 30, 1970, respectively (J.S. 58-60). Like Judge Gasch's Final Judgment, these orders adjudicated only the *per se* illegality of bulk resale restrictions imposed by ICI and Glaxo on their "vendees" or "purchasers" of bulk griseofulvin (J.S. 58-60, 71).[21]

On the record and as found by three judges who independently considered this matter, appellees' antitrust violations are grounded specifically and exclusively on the *per se* illegality of bulk resale restrictions imposed by sellers on their vendees. There is no foundation here for the Government's contentions, evidently cen-

---

[20] See also Judge Gasch's declaration of August 12, 1971, that Article IV(D) of the Final Judgment "is not to be construed to prevent defendants from granting exclusive licenses or exclusive distributorships" (J.S. 75).

[21] When the Government originally brought on its partial summary judgment motion against Glaxo, its Statement of Undisputed Facts material to the motion made no reference to licenses and referred only to agreements expressly prohibiting vendees from reselling bulk griseofulvin (App. 274). In its proposed Order, however, the Government deviated from its Statement of Undisputed Facts and asked the Court to find, as a conclusion of law, that the provisions of Glaxo's patent licensing agreements restraining the resale of griseofulvin were *per se* Sherman Act violations (App. 278-279). Judge Sirica declined to enter the proposed order and entered one consistent with both Judge Gasch's prior order and the Government's original Statement (J.S. 58-59). The Government made no further effort, as it could have done, to obtain a ruling from the Court as to the illegality of defendants' patent licensing practices, and has not disputed ICI's sworn allegations as to the necessity and reasonableness of defendants' patent licensing practices (see fn. 19, above).

tral to its argument, that it is protecting the public "from licensing practices found to be unlawful under the antitrust laws" (see p. 17 of its brief) and that appellees' license agreements "unlawfully restrained trade" (*ibid.*, p. 27).

II.

THE DISTRICT COURT PROPERLY DISALLOWED THE CHALLENGE OF PATENT VALIDITY INITIATED BY THE ATTORNEY GENERAL, BECAUSE IT DOES NOT HAVE JURISDICTION TO DECIDE SUCH CHALLENGES, EXCEPT WHEN THE PATENT IS PROCURED BY FRAUD

The Attorney General's brief poses the question before this Court as one of the "standing" of the United States to challenge the validity of patents "involved in illegal restraints of trade." We regard this statement of the question as confusing and unserviceable. The amorphous concept of "standing" raises a welter of complex issues, arising under the Constitution, the Administrative Procedure Act and specific congressional and state legislation, which are doubtless appropriate in the case of private persons adversely affected by governmental action.[22] But these issues are irrelevant to the authority of the Attorney General to attack the decision of a co-ordinate branch of the Government, the Patent Office, that an issued patent is valid. It would therefore be more helpful and constructive to phrase the question in terms of the court's "jurisdiction" to decide, and the Attorney General's "power" to initiate, challenges of patent validity. This is the way the case was presented to the District Court (see pp. 27-28, below) and decided by that court (J.S. 42-50).

---

[22] See, *e.g.*, the recent decisions of this Court in *Sierra Club* v. *Morton*, 31 L. Ed. 2d 636 (1972), and *Eisenstadt* v. *Baird*, 31 L. Ed. 2d 349 (1972); *Scanwell Laboratories, Inc.* v. *Shaffer*, 424 F. 2d 859, 861-873 (D.C. Cir. 1970).

The second switch from the legal position taken by the Attorney General below is that he now limits his asserted right to challenge patent validity to "patents involved in illegal restraints of trade." Were this new position to be accepted, the present challenge must fail, because the challenged patents have not been involved in any illegal trade restraints. Moreover, as a general matter, the Sherman Act carries with it its own ample remedies for patent-antitrust violation. Hence, to add, in an antitrust suit, the burden of establishing patent invalidity to the already heavy task of proving antitrust violation is a waste of money, time and resources and is not in the public interest.

Accordingly, in place of the Attorney General's unsatisfactory version of the question presented on this appeal, ICI submits the following formulation: — Whether the Attorney General, in prosecuting an antitrust complaint, has the authority to initiate, and the District Court the jurisdiction to entertain, a challenge to the validity of a patent issued by the Patent Office, except where the patent is relied on as a defense to the alleged antitrust violation.

United States v. *American Bell Telephone Co.*, 167 U.S. 224 (1897) ("Bell III"), answers this question in the negative, for it lays down the rule that, except for fraud in the procurement of a patent, only the Congress can confer jurisdiction on the District Court to decide questions of patent validity;[23] and the Congress

[23] Underlying the seven "standing" cases cited on p. 30, fn. 31 of the Attorney General's brief, is a congressional statute conferring "jurisdiction" on the court to review administrative agency action. Similarly, in connection with the private treble damage actions cited in that footnote, regard must be had to the congressional intent in conferring this remedy on private persons, see *Hawaii* v. *Standard Oil Co. of Calif.*, 31 L. Ed. 2d 184 (1972);

has not conferred such jurisdiction. The rule of *Bell III* should continue to be followed, because it is in accord with the constitutional power of the Congress to prescribe the jurisdiction of the courts, with the current law of judicial review of administrative agency determinations, and with the congressionally prescribed framework for the review of Patent Office determinations.

United States v. *U. S. Gypsum Co.*, 333 U.S. 364 (1948), does not apply to the facts of this case and is not relevant to the only real issue posed on this appeal—the jurisdiction of the Court. It permits the Attorney General to attack the validity of a patent that was relied on as a defense to a charge of antitrust violation. Since non-allowance of the attack on patent validity would frustrate a Sherman Act jurisdiction conferred by the Congress, *Gypsum* is consistent with the rule of the *Bell* case.

In response to the Attorney General's contrary view, ICI has endeavored to show why it is not in the public interest to allow the Attorney General to inject challenges of patent invalidity into antitrust proceedings. But regardless of public policy considerations, the dispositive question on this appeal is whether the District Court was empowered by the Congress to decide the Attorney General's challenge of patent validity. In the final analysis, "Congress . . . is the arbiter of the public interest," see *Simpson* v. *Union Oil Co.*, 377 U.S. 13, 17 (1964), and as such is vested with the power to prescribe the jurisdiction of the District Court to review the determinations of the Patent Office.

Perma Life Mufflers, Inc. v. *International Parts Corp.*, 392 U.S. 134, 143, 147 (1968) (concurring opinions of White and Fortas, J.J.); *United States* v. *Borden Co.*, 347 U.S. 514, 518 (1954); *United States* v. *Cooper Corp.*, 312 U.S. 600 (1941).

A. Conferring Authority on the Attorney General to Initiate the Challenge of Patent Validity in Antitrust Proceedings is not in the Public Interest.

1. The Challenged ICI Patent Embodies a True Invention That Is Being Challenged Only for Alleged Error by the Patent Office in the Allowance of Claims, and Raises No Barrier To Entry on the U. S. Griseofulvin Market

The ICI griseofulvin patent challenged by the Attorney General embodies a true invention, with a unique efficacy in combatting certain fungus infections that is conceded by the Attorney General (App. 6). The medical literature described griseofulvin as "a revolutionary advance in the oral treatment of ringworm infections" and its treatment of ringworm of the scalp as "one of the great triumphs of modern medicine."[24] The ICI patenting in the United States of the use of griseofulvin, a British invention, as described in the patent, serves one of the functions for which the patent system was founded, "the introduction of new and useful inventions from abroad."[25]

The Attorney General's challenge is not directed to the novelty, utility or non-obviousness of the ICI invention, which are the criteria of patentability, see *Graham* v. *John Deere Co.*, 383 U.S. 1, 12 (1966). It

---

[24] See, e.g., British Medical Journal 1165 (Nov. 28, 1959); British Medical Journal 1659 (June 22, 1963); Hildrick-Smith, *Fungus Diseases and Their Treatment*, p. 53 (1964). The last source states:—"Rosenthal (1960) in a historical review follows the progress of ringworm of the scalp of children which has defied conquest for two milleniums, but which has finally yielded to treatment with griseofulvin."

[25] See President Washington's First Annual Address to the Congress, January 8, 1790, in 30 Writings of Washington 491, 493 (U.S. Gov't Printing Office, 1939); see Tench Coxe, On Invention and Encouragement of Industry, summarized in Hamilton, Patents and Free Enterprise, Temporary National Economic Committee Monograph No. 31, pp. 24-25 (1941).

is directed to alleged errors of judgment by the Patent Office in the allowance of patent claims.[26] The errors alleged are (a) that the patent claims do not contain information as to the specific kind of fungus diseases for which the drug is effective and the length and intensity of the dosage,[27] and (b) that, since the invention covered a new use of an old product, the patent product claims were invalid.[28]

---

[26] ICI, without any desire to broach the merits, fails to see any basis for the Attorney General's statement (see p. 30 of his brief) that:—"There is no question that the appellees' patents could be invalidated in private litigation." Nor can it agree with his earlier statement (see p. 28, fn. 29) that "it must be assumed that the patents are invalid." Were factual issues posed by ICI's motion for summary judgment to strike the patent invalidity allegations of the complaint, then the record would have to be looked at in the light most favorable to the Attorney General, cf. *Poller* v. *Columbia Broadcasting System, Inc.*, 368 U.S. 464, 473 (1962). But since the issue raised by the motion was one of law, Judge Gasch's grant of the motion carries with it no implications, *pro* or *con*, as to patent validity.

[27] *In re Wiggins*, 397 F. 2d 356 (C.C.P.A. 1968), in an opinion by Mr. Justice Clark, upheld patent claims somewhat analogous to those involved here, with respect to another antibiotic intended for oral administration. This Court has recognized that a patent specification "may be sufficient, though the unskilled may not be able to gather from it how to use the invention. And it is evident that the definiteness of a specification must vary with the nature of its subject. Addressed as it is to those skilled in the art, it may leave something to their skill in applying the invention, but it should not mislead them," *Mowry* v. *Whitney*, 81 U.S. (14 Wall.) 620, 644 (1872); *in accord*, *Webster Loom Co.* v. *Higgins*, 105 U.S. (15 Otto) 580, 586 (1882).

[28] This allegations of error does not challenge the validity of the method claims of the ICI patent (App. 7-8). *Agrashell* v. *Hammons Products Co.*, 413 F.2d 89 (8th Cir. 1969) and the other cases cited on p. 9, fn. 14, of the Attorney General's brief recognize the patentability, under 35 U.S.C.A. 100(b), of the new use of a known process or material.

The Attorney General's brief (see pp. 17, 24, 25-27) relies heavily on language, culled from decisions of this Court concerned with other issues,[29] that it is in the public interest to permit the challenge of specious and worthless patents, which cover ideas in the public domain and do not embody true invention. But ICI's patent is not a specious or gadget patent, of the kind properly condemned by this Court in *Great A&P Tea Co.* v. *Supermarket Equipment Corp.*, 340 U.S. 147 (1950); rather it gives the public a "novel and useful invention," see White, J. concurring in *United States* v. *Singer Mfg. Co.*, 374 U.S. 174, 199 (1963). Far from covering an idea in the public domain or in general circulation, the ICI patent "add[s] to the sum of of useful knowledge," see *Graham* v. *John Deere Co., supra,* 383 U.S. at p. 6; *Great A&P Tea Co.* v. *Supermarket Equipment Corp., supra,* 340 U.S. at 152, and "gives something of value to the community," *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

The collection of royalties from persons using the ICI patent (contrary to what is said on p. 24, fn. 25, p. 27 and p. 29, fn. 35, of the Attorney General's brief) neither requires the public "to pay tribute to would be monopolists without need or justification"; nor imposes "unjust impositions and exactions" on the public; nor "confer[s] an improper competitive advantage on the patentee." It imposes no barrier to competition in the U. S. griseofulvin market. ICI has made its patent available for non-exclusive licensing on reason-

[29] Thus, there is in this case no such issue as was paramount in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) and *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964)—the assertion of a claimed right under State contract or statutory law to defeat the requirements of the Constitutional Federal Supremacy Clause and of the U.S. Patent Code.

able terms and conditions, giving notice of its availability in the *Official Gazette* of the Patent Office; pursuant to this offer, it has granted licenses to five independent U. S. companies; two of which have purchased griseofulvin from it (see p. 16, above) and none of which have suggested that the royalty rate was unreasonable (App. 351). The independent drug firms pay this royalty, not to their competitor AMHO, but to their supplier ICI (App. 354).[30]

Thus, it can be said that the ICI patent accords with the constitutional purpose underlying the patent grant "to promote the Progress of . . .useful Arts and Sciences, by securing for limited Times to . . . Inventors the exclusive Right to their respective Discoveries," Article I, Section 8, Clause 8, of the U. S. Constitution. In rewarding the inventor, the "rights and welfare of the community [have been] fairly dealt with and effectively guarded," for the public interest has been furthered by the progress of the useful arts and sciences, see *Kendall* v. *Winsor*, 62 U.S. (21 How.) 322, 329 (1859); *Sears, Roebuck & Co.* v. *Stiffel, supra*, 376 U.S. at p. 230; Mr. Justice White, concurring in *United States* v. *Singer Mfg. Co., supra*, 374 U.S. at 199.

2. The Patents Challenged in This Case Were Not Involved in Any Antitrust Violation

In the District Court, the Attorney General specifically predicated his right to challenge patent validity on two propositions, the public interest in invalidating spurious patents, and the inherent power of the

[30] Moreover, where bulk or dosage griseofulvin is bought from AMHO, AMHO absorbs all royalties due to ICI and AMHO's purchasers are not required to make further payments to ICI (App. 354).

Attorney General to bring the suit and the inherent equity jurisdiction of the Court to decide it. The antitrust case was described as not necessary to establish the Attorney General's *authority* or the Court's *jurisdiction,* but as giving a particular importance to allowing the Attorney General to assert the public interest in invalidating spurious patents. See App. 263-273; Transcript of Proceedings, Jan. 23, 1969, pp. 150-160, cf. p. 129 (not printed). The District Court therefore justifiably concluded that "the issue is whether the United States can challenge ICI's patent independent of any antitrust claims" (J.S. 43).

On this appeal, the Attorney General has modified his legal stance, limiting his attack to "patents involved in illegal restraints of trade." His brief purportedly supports this attack by asserting that appellees were held to have unreasonably restrained trade in violation of the antitrust laws by restrictive patent licensing practices(pp. 23, 27) and that he is protecting the public "from licensing practices found to be unlawful under the antitrust laws" (p. 17). As shown on pp. 19 to 21, above, these assertions have no foundation in the record of this case; appellees' patent licensing practices were not found by the District Court to be involved in any antitrust violation.

The Attorney General argues that appellees, without their patents, could not have maintained their "monopoly" over the U. S. griseofulvin market.[31] This, however, is quite different from stating that the patents were "involved in illegal restraints of trade." Patentees, provided they have not abused their patents,

[31] It has been shown earlier that the U. S. griseofulvin market, although relatively small and shrinking, is competitive (see pp. 12 to 17, above).

have the right to exercise the limited monopoly that the patent confers, and the District Court found that "there has been no showing that either Glaxo or ICI has abused its patent rights" (J.S. 69).

The Attorney General is in effect asking this Court to find *de novo* what the District Court refused to find—that appellees' licensing practices constituted a *per se violation* of the Sherman Act (cf. App. 278-279). The record supports neither this finding nor one that appellees' patents were "involved in illegal restraints of trade,"[32] and this Court is not the appropriate forum to make such a finding. Hence, the challenge of validity here made does not satisfy the standard which the Attorney General himself has laid down. But even if this were the legal standard (which will be discussed at pp. 31 to 42, below), it would be against the public interest to permit the trial of questions of patent invalidity to be injected into antitrust cases and thus bog down antitrust enforcement.

3. Since Adequate Redress for Patent-Antitrust Violation Is Available Under the Sherman Act, It Would Unnecessarily Bog Down Antitrust Enforcement To Introduce Extraneous Issues of Patent Invalidity Into Sherman Act Proceedings

There is a public interest in avoiding unnecessary litigation, particularly if it be expensive and time-consuming. It was to avoid expensive litigation that this Court, in *Standard Oil Co.* v. *United States,* 283 U.S.

---

[32] As pointed out on pp. 8 to 10, above, the three judges who rendered the dispositive opinions and orders below predicated appellees' antitrust violations exclusively on the *per se* illegality of the bulk resale restrictions. The Attorney General's effort to support such a finding involves incorrect and debatable inferences from a few documents, the significance of which were never explored at the trial (see p. 10, fn. 4, p. 12, fn. 7, p. 14, fn. 10, p. 18, fns. 17 and 18, above).

163 (1931), approved patent pooling, and, in *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation,* 402 U.S. 313 (1971), held a patentee who had lost an infringement suit to be estopped from bringing further suit, thereby overruling the mutual estoppel doctrine of *Triplett* v. *Lowell,* 297 U.S. 638 (1936).

Proof of patent antitrust violation involves protracted and expensive litigation, with massive records.[33] So does the establishment of patent invalidity, see *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation, supra,* at p. 336.[34] The facts and issues relevant to antitrust violation and to patent invalidity, respectively, have nothing in common (cf. App. 437-447, 449-450).

More important, adequate redress is available under the Sherman Act to "cure the ill effects of the illegal conduct," see *United States* v. *U.S. Gypsum Co.,* 340 U.S. 76, 88 (1950); *Ford Motor Co.* v. *United States,* 31 L. Ed. 2d 492, 501 (1972). In proper cases, the Attorney General may obtain an injunction compelling the licensing, on a reasonable royalty basis, of the patents involved in the alleged antitrust violation (see cases cited at p. 49, below).[35] Where such relief is

---

[33] For example, the printed record in *Hartford-Empire* v. *United States,* 323 U.S. 386 (1945), *clarified,* 324 U.S. 570 (1945), ran to 16,500 pages and the trial lasted 112 days.

[34] Merely in the course of the Government's pre-trial preparations for attacking the validity of two griseofulvin patents, the ICI dosage and the Glaxo microsize patents, the Government propounded 37 ramified interrogatories to Glaxo and ICI (App. 437-447). It also served a motion to produce, under which it obtained 1,700 pages of documents relating to the Glaxo patent from ICI alone (App. 449-450).

[35] In this case, the need of justification for such relief has not been made out (see pp. 44 to 49, below.).

awarded, it is characteristically accompanied by provisions limiting the power of the defendant-licensor and allowing applicants for a license to obtain judicial review of the reasonableness of the royalties requested by the defendants and of the validity and scope of the licensed patents.[36]

Given the far-reaching and adequate remedy of compulsory patent licensing available in a Sherman Act proceeding, it is an unnecessary and wasteful diversion of time, money and resources, and bogs down antitrust enforcement, to have the Attorney General prosecute a largely academic challenge of patent validity. From the standpoint of the patentee, it is inequitable and anomalous that, in clearing himself of charges of antitrust violation, he be put to the burden of defending extraneous challenges to the validity of his patent under the Patent Code.

B. The District Court Properly Dismissed the Attorney General's Challenge of Patent Validity, on the Ground That It Had No Jurisdiction To Entertain Such a Challenge.

1. United States v. American Bell Telephone Company, 167 U.S. 224 (1897) ("the Bell Case"), Establishes the Rule That the District Court Does Not Have Jurisdiction of a Challenge by the Attorney General to the Validity of a Patent, Except Where the Patent Was Obtained by Fraud

In *United States* v. *American Bell Telephone Co.*, 167 U.S. 224, 269 (1897) ("Bell III"), this Court said that, except for patents obtained by fraud—

> ". . . the courts of the United States, sitting as courts of equity, could [not] entertain jurisdiction of a suit by the United States to set aside a patent for an invention on the mere ground of error of

[36] See, e.g., *United States* v. *IBM Corp.*, 1956 Trade Cases ¶ 68,245; *United States* v. *RCA*, 1958 Trade Cases ¶ 69, 164; *United States* v. *3M*, 1969 Trade Cases ¶ 72,865.

judgment on the part of the patent officials. That would be an attempt on the part of the courts in collateral attack to exercise an appellate jurisdiction over the decisions of the patent office, although no appellate jurisdiction has been by the statutes conferred."

Relying on this language the District Court granted appellee ICI's motion under Rule 12(c) of the Federal Rules of Civil Procedure to strike the allegations of the complaint challenging the validity of the ICI patent, on the ground that the court had no jurisdiction to entertain them. The determinative issue on this appeal is whether the District Court erred in granting ICI's motion and in ruling that it had no jurisdiction to set aside the patent on the ground that the Patent Office had erred in issuing it.[37]

The language quoted from *Bell III* constituted the last Supreme Court word in a proceeding that had been before the Court on two prior occasions, in 128 U.S. 315 (1888) ("Bell I") and 159 U.S. 548 (1895) ("Bell II"). The holding in *Bell I* was that the Court, in the exercise of its inherent equity jurisdiction, had the power to cancel, at the Attorney General's suit, a patent obtained by fraud. But it also contained language, based on some land patent cases, intimating that the courts possessed broader powers. *Bell III* specifically noted that the language of *Bell I* was not to read as controlling, and *Bell III* is therefore the definitive expression of this Court on the subject.

When *Bell I* was decided, judicial review of administrative agency action was in its gestation (not even infancy) period, and the paucity of judicial precedents

---

[37] The grounds upon which the Attorney General asserted that the Patent Office had erred in granting the patent have been set forth at pp. 24 to 25, above.

might have led the courts to analogize patents on land to patents of invention. However, it is now clear that these two kinds of "patents" serve vastly different public purposes (see, *e.g.*, pp. 41-42 of the Attorney General's brief), and they are each subject to distinct and elaborate statutory provisions for administrative and judicial review. Hence, the language in the early land patent cases, such as *Stone* v. *United States*, 69 U.S. (2 Wall.) 525 (1865) and *United States* v. *San Jacinto Tin Co.*, 125 U.S. 273 (1888), should be disregarded as having no bearing on the issue on appeal. Instead, regard should be had to the constitution, the relevant trends in administrative law, and the review provisions of the Patent Code, all of which support the rule of the *Bell* case.

1. The Rule of the Bell Case Should Continue to be Followed, Because Congress, Which has the Plenary Power to Prescribe the Jurisdiction of the Courts to Review Patent Office Determinations, has Declined to Give the Attorney General any Special Authority to Challenge Patent Validity

The rule of the *Bell* case is consistent with the exclusive power vested in the Congress to prescribe the jurisdiction of the federal courts. "As regards the inferior courts, Congress may give them such jurisdiction, both original and appellate, within the limits of the Constitution, as it may see fit to confer. . . . The whole subject is left to the unfettered discretion of Congress," *Home Life Insurance Co.* v. *Dunn*, 86 U.S. (19 Wall.) 214, 226 (1874); *accord*, *Nashville* v. *Cooper*, 73 U.S. (6 Wall.) 247, 251-2 (1868). The power to expand the jurisdiction of the federal courts lies in the Congress not the courts, see *Snyder* v. *Harris*, 394 U.S. 332, 341-2 (1969). "It is clear that the United States cannot assert, by virtue of its sovereignty, a right of appeal which no statute has conferred, or which, if conferred, had been abolished," *United States* v. *Rice*, 327 U.S. 742, 749 (1946).

The exclusive congressional prerogative obtains even in the case of administrative action affecting private rights. "It can hardly be doubted that Congress, acting within its constitutional powers, may prescribe the procedures and conditions under which, and the courts in which, judicial review of administrative matters may be had," *Tacoma* v. *Taxpayers of Tacoma,* 357 U.S. 320, 336 (1958); *accord, NLRB* v. *Cheney California Lumber Co.,* 327 U.S. 385, 388 (1946). In matters confided to the Executive Branch, absent a constitutional issue, Congress may deny direct judicial review[38] to the Government as well as to private parties, see, *e.g., S&E Contractors, Inc.* v. *United States,* 31 L. Ed. 2d 658 (1972); *Schilling* v. *Rogers,* 363 U.S. 666 (1960); *Heikkila* v. *Barber,* 345 U.S. 229 (1953). "All constitutional questions aside, it is for Congress to determine how the rights which it creates shall be enforced.... In such a case the specification of one remedy normally excludes another, ..." *Switchmen's Union* v. *National Mediation Board,* 320 U.S. 297, 301 (1943), cited with approval by Fortas, J., 387 U.S. at 177, concurring in *Gardner* v. *Toilet Goods Association,* 387 U.S. 167 (1967) and dissenting in *Abbott Laboratories* v. *Gardner,* 387 U.S. 136 (1967).

Despite the overriding public interest in competition that underlies the Sherman Act, this Court has refused to allow the district courts to enforce antitrust remedies, unless those remedies were expressly prescribed by the Congress. Thus, in *D.R. Wilder Mfg. Co.* v. *Corn Products Refining Co.,* 236 U.S. 165 (1915), an action by a seller to recover an agreed price, the pur-

[38] This case, of course, involves the question of collateral judicial review, which would require an even clearer expression of Congressional authorization.

chaser was denied any defense of illegality based on the Sherman Act, because "the remedy can be only that which the statute prescribes" (see pp. 174-175). Commenting approvingly on this case in *Kelly* v. *Kosuga,* 358 U.S. 516, 519 (1959), this Court said—"The Court observed that the Sherman Act's express remedies could not be added to judicially by including the avoidance of private contracts as a sanction."

In *United States* v. *Cooper Corp.,* 312 U.S. 600 (1941), the Attorney General argued forcibly that the public policy of the Sherman Act supported the Government's right to the treble damage remedy provided by Section 7 of the Clayton Act. Yet his argument, and the majority and dissenting opinions of this Court, focussed on whether the United States was a "person" within the meaning of that Section, with the majority concluding that the United States was not such a person and that it was not the intent of the Congress to afford this remedy to the Government. In reaching this holding, this Court said: "It is not our function to engraft on a statute additions which we think the legislature logically might or should have made" (p. 605).[39]

As regards patents, "the power of Congress to legislate upon the subject of patents is plenary by the terms of the Constitution," *McClurg* v. *Kingsland,* 42 U.S. (1 How.) 202, 206 (1843). The congressional power to prescribe the jurisdiction of the federal courts is thus supplemented by its constitutional power to "provide such instrumentalities in respect of securing to inventors the exclusive rights to their discoveries as in

[39] When Congress, fourteen years later, amended the Sherman Act to extend the right of recovery to the United States, it limited recovery to single damages (15 U.S.C. Sec. 15a, 69 Stat. 282).

its judgment will be best calculated to effect that object," *United States* v. *Duell*, 172 U.S. 576, 583 (1899).[40]

In the exercise of these constitutional powers, the Congress has continually reviewed and revised the administrative organization within the Executive Branch for examining and reviewing patent applications, and the judicial responsibility for reviewing the administrative determinations made by the Executive Branch. From 1790 to 1950, Congress amended the patent laws some 50 times, see *Graham* v. *John Deere Co.*, *supra*, at p. 10. In *United States* v. *Duell*, decided only two years after *Bell III*, this Court analyzed six different statutes, enacted between 1790 and 1893, dealing with the administrative procedures of the Patent Office and its predecessors for examining and reviewing patents, and the subsequent judicial review of such administrative determinations (see 172 U.S. at 583-586). Since then, the patent laws have been amended six more times with respect to these procedures.[41] Despite this meticulous legislative supervision, there is no provision in the Patent Code supporting the Attorney General's right to challenge patent validity in the District Court. Congress has had under consideration several proposals to confer on the United States and other persons a right to institute proceedings in the Patent Office to cancel or revoke patents, with provision for court re-

---

[40] Under Article I, Section 8, Clause 18, of the Constitution, Congress has the power "to make all Laws which shall be necessary and proper for carrying into Execution" the patent power and the other powers entrusted to it.

[41] Act of Mar. 2, 1927, 44 Stat. 1335-7; Act of Mar. 1927, 44 Stat. 1394; Act of Mar. 2, 1929, 45 Stat. 1475; Act of Aug. 5, 1939, 53 Stat. 1212, c. 451; Act of Mar. 4, 1950, 64 Stat. 11, c. 50; Act of Oct.. 31, 1951, 65 Stat. 728, c. 655.

view,[42] but no such proposal has been reported out of Committee. The failure on the part of Congress to confer such a right led Judge Wyzanski, in *United States* v. *Standard Electric Time Co.*, 155 F. Supp. 949, 953 (D. Mass. 1957), to conclude, referring to the *Bell* case, that "it is unsuitable for a court without legislative authority behind it, to create this right." See also *Flood* v. *Kuhn*, 32 L. Ed. 2d 728, 739, 741-744 (1972); *Rural Electrification Administration* v. *Northern States Power Co.*, 373 F.2d 686, 700 (8th Cir. 1967), *cert. denied*, 387 U.S. 945 (1967); *Alabama Power Co.* v. *Alabama Electric Cooperative*, 394 F.2d 672, 674 (5th Cir. 1968), *cert. denied*, 393 U.S. 1000 (1968).

In the light of the comprehensive and detailed scheme established by the Congress for the administrative and judicial review of patent applications and patents, the rule of the *Bell* case is manifestly correct and still applies. Congress, as the ultimate arbiter of the procedures whereby the Government grants or invalidates patents, has not, in its scheme, included a civil action by the Attorney General for invalidating patents.[43]

---

[42] See, for example, House of Rep. Doc. No. 239, 78th Cong., 1st Sess. (1943), containing a recommendation by the National Patent Planning Commission, established by Executive Order of Dec. 12, 1941; Proposed Revision and Amendment of the Patent Laws: Preliminary Draft with Notes, House of Rep. Committee on the Judiciary (1950); S. Res. 92, Senate Report No. 1464, p. 13, 84th Cong., 2d Sess. (1956); Senate Doc. No. 5, 90th Cong., 1st Sess., pp. 37-48, containing a recommendation by the President's Commission on the Patent System (1966); S. 643, 92d Cong., 1st Sess. (a revised Committee print of which appears in Patent, Trademark & Copyright Journal, Oct. 28, 1971, pp. D1-17); Report of Senate Judiciary Subcommittee on Patents, Trademarks and Copyrights, Senate Report No. 92-935, 92nd Cong., 2d Sess. (1972).

[43] If there is any dissatisfaction with the procedures of the Patent Office, such as that it lacks the aid of arguments which could be advanced by parties interested in proving patent invalidity (see p. 32 of the Attorney General's brief), it should be addressed to the Congress and not to the courts.

3. The District Court Has No Inherent Equity Jurisdiction To Pass on the Validity of Patents, Except Where Obtained by Fraud

Since the Congress has not conferred jurisdiction on the District Court to entertain suits by the Attorney General to invalidate patents, the only remaining question is whether such jurisdiction can be said to be part of the inherent equity jurisdiction of the court. Here, it is established that courts have the inherent power to deal with fraud and that the Attorney General is correspondingly empowered to bring suit to set aside patents obtained by fraud, J.S. 43-47; *United States* v. *Bell Telephone Co.* ("Bell I"), *supra,* J.S. 26-27; *S & E Contractors, Inc.* v. *United States,* 31 L. Ed. 2d 658 (1972).

The Attorney General, citing no cases, appears at one point to rely on the authority of the United States as a sovereign to obtain a declaration of patent validity, saying that that authority should be no less than when it seeks a declaration of validity in connection with its own use of a patent. But in the latter case, his right to obtain such a declaration is pursuant to a jurisdiction specifically conferred by the Congress, see 28 U.S.C. § 1498 (suits in the Court of Claims) and 28 U.S.C. §§ 2201-2 (Declaratory Judgment Act). Also, it may be noted that this Court has recently denied antitrust relief to a State of the Union for economic injuries done to its sovereign interest, *Hawaii* v. *Standard Oil Co. of California,* 31 L. Ed. 2d 184 (1972).

In support of the inherent equity jurisdiction of the court to entertain challenges by the Attorney General to patent validity, the Attorney General relies on the same five cases that he cited to the District Court, none of which concern patents, only one of which involves the judicial review of an administrative determination, and two of which antedate the *Bell* case of 1897.

United States v. *San Jacinto Tin Co.*, **125 U.S. 273** (1888), involving patents on land, has already been discussed (see p. 33, above), and supports the inherent jurisdiction of the courts to deal with fraud. Three cases involve congressional rivers and harbors legislation requiring the removal of obstructions to navigable rivers, which are considered the public property of the nation, *Wyandotte Transportation Co.* v. *United States*, 389 U.S. 191 (1967); *United States* v. *Republic Steel Corp.*, 362 U.S. 482 (1960);[44] *Sanitary District of Chicago* v. *United States*, 266 U.S. 405 (1925).[45] The fifth case, *Mr. Debs* 158 U.S. 564 (1895), a precedent without progeny also antedated the *Bell* case of 1897, upheld the Circuit Court's issuance of an injunction against striking railroads, on the grounds of the Government's property interest in the mails, the court's equity jurisdiction to abate a public nuisance obstructing the operation of the railroads (considered the highways of interstate commerce), and the Sherman Act (the latter of which had been the main reliance of the Circuit Court).

These somewhat outmoded and irrelevant cases are far from justifying the assertion of an inherent jurisdiction in the courts to entertain challenges to the de-

---

[44] In this case, despite the necessity felt by the Court's majority for inferring injunctive relief to keep the act from being a "futility inconsistent with the purposes of the legislation," four justices dissented on the ground that the statute did not specifically authorize such injunctive relief.

[45] These cases involve situations roughly analogous to public nuisances, which were subject to abatement by the public authorities under the common law of England and the States of the Union, see Comment, *Interferences with Navigation*, 59 Columbia L. Rev. 1065, 1067 (1959), and are subject to a "federal common law," see *Illinois* v. *City of Milwaukee*, 31 L. Ed. 2d 712 (1972).

terminations of the Patent Office, in a framework where the Congress has so comprehensively prescribed the nature and conditions of judicial review.[46]

4. United States v. United States Gypsum Co., 333 U.S. 364 (1948), Permits the Attorney General To Attack Patent Validity Only Where the Patent Is Relied on as a Defense to an Antitrust Violation

In *United States* v. *United States Gypsum Co.*, 333 U.S. 364 (1948), this Court said only that the Government may, in an antitrust case, challenge patents relied on as a defense. But the Attorney General contends that the rationale of that case also establishes his right to challenge patents solely on the ground that they are involved in an antitrust violation. As shown on pp. 27 to 29, above, if this were in fact the rationale of the *Gypsum* case, the Attorney General's current challenge of patent validity was properly dismissed by the District Court, for the challenged patents were not involved in antitrust violations.

But this is not the rationale of *Gypsum,* which is an elaboration on, not a withdrawal from *Bell.* Congress has conferred jurisdiction on the courts to decide antitrust equity suits brought by the Attorney General. *Gypsum* takes cognizance that that jurisdiction would be frustrated were the Attorney General not allowed "the same opportunity [as private licensees] to show that the asserted shield of patentability does not exist" (see p. 388).

Thus *Gypsum* put the United States on a parity with private persons, who had been allowed to challenge

---

[46] Even the inherent equity jurisdiction of the court may be displaced, modified or regulated by congressional enactment, *S & E Contractors, Inc., supra,* p. 38; *Illinois* v. *City of Milwaukee, supra,* fn. 45.

patent validity so that they might plead violation of the Sherman Act as a defense to a suit to collect royalties on a patent license agreement containing price-fixing provisions, see *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942); *Katzinger (Edward) Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S 394 (1947); *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402 (1947); cf. *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945).[47] Similarly, in *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), the question was whether the maintenance and enforcement of a patent obtained by fraud on the Patent Office could be the basis of a Section 2 monopolization proceeding entitling the injured party to treble damage recovery. Not to have permitted a challenge of patent validity would be "to frustrate the assertion of rights conferred by the antitrust laws" (p. 176).

5. The District Court's Ruling That It Had No Jurisdiction To Entertain the Attorney General's Challenge of Patent Validity Was Correct

In the final analysis, the Attorney General's case rests not on *Gypsum*, but on public policy assumptions which are either incorrect or debatable. Thus, the public interest in free competition is aided, as this Court said, when patent validity is challenged in a *Gypsum*-type situation. But it is in fact impaired when the trial of irrelevant and extraneous patent validity issues is allowed to bog down antitrust enforcement (see pp. 29 to 31, above) and the claims of patent

[47] These cases were precursors of *Lear* v. *Adkins*, in that they held that the state law doctrine of licensee estoppel could not be invoked to thwart the purposes of the Sherman Act.

invalidity are of the kind directed against the ICI patent in this proceeding (see pp. 24 to 27, above).[48]

In this case, the Attorney General is asserting a right to challenge patent validity which, if granted, would involve the judicial amendment of the Patent Cole, and there is no reason to believe that the public interest would be advanced by giving the Attorney General such a right. Hence, the rule of the *Bell* case, as interpreted by *Gypsum*, adequately states what is and should be the prevailing law. Absent a clear signal from Congress, there is no warrant for expanding the jurisdiction of the District Court to entertain a collateral attack by the Attorney General on the validty of a patent issued by the Patent Office.[49]

C. Issues of Patent Invalidity are not Appealable to this Court Under the Expediting Act, Unless the Patent is Relied on as a Defense to an Antitrust Violation.

If the Attorney General were granted the right in an antitrust suit to challenge patent validity in the District Court, the Expediting Act of February 11, 1903, would presumably permit the direct review by this Court of any issue of patent invalidity the Justice Department chooses to litigate in the District Court, such as the two claims of invalidity directed against the ICI

---

[48] Except in *Gypsum*-type situations, whether the patent or a product or process is valid or invalid has no bearing on the Government's ability to obtain comprehensive patent relief necessary to cure illegal restraints of competition (see pp. 30-31, above).

[49] In *United States* v. *Cooper Corp.* and *Kelly* v. *Kosuga*, discussed at pp. 34-35, above, a flexible construction of the Sherman Act would have given the United States or private parties a remedy that would have clearly advanced the public interest in free competition. Yet this Court refused to add to the remedies prescribed by Congress.

patent (see p. 25, above). The lack of public importance of such issues, plus the added burden of review this would place on this Court, leads ICI to renew its objection that such direct appeals of patent invalidity issues are generally not within the jurisdiction of this Court under the Expediting Act.

Section 2 of the Expediting Act of February 11, 1903, 15 U.S.C. § 29, is special legislation applicable in terms only to civil actions [50] brought under the Interstate Commerce Act of 1887, the Sherman Act of 1890, "or any other Acts having a like purpose" (15 U.S.C. § 28). Except for *Gypsum*-type situations where a patent is relied on as a defense to an antitrust violation, the Attorney General's request for an adjudication that the patent be declared invalid under the Patent Code is not an action in equity to restrain violations of the Sherman Act "or any other Acts having a like purpose." [51]

The purpose of Section 2 of the Expediting Act is to expedite antitrust litigation of "great and general importance," *Shenandoah Valley Broadcasting, Inc.* v. *American Society of Composers, Authors and Publishers*, 375 U.S. 39 (1963), and to secure uniformity in the application of the antitrust laws. We have attempted to show earlier that the kind of claims directed against the ICI patent are not germane to the antitrust laws and are impediments to their enforcement. Patent litigation, like antitrust litigation, involves the same

[50] This has been construed to mean equity actions or suits akin to suits in equity, see *United States* v. *St. Regis Paper Co.*, 285 F.2d 607 (2d Cir. 1960), *aff'd on other grounds*, 368 U.S. 208 (1961).

[51] See *Columbia Gas & Electric Corp.* v. *American Fuel & Power Co.*, 322 U.S. 379 (1944); *United States* v. *St. Regis Paper Co.*, *supra*, fn. 50; cf. *United States* v. *Interstate Commerce Commission*, 337 U.S. 426, 441-443 (1949).

need on the part of this Court for the assistance of the Courts of Appeals in examining lengthy records and resolving all questions.[52] Thus not only the language of the Expediting Act, but also considerations of sound judicial administration, preclude direct review in this Court of declaratory judgment actions arising under the Patent Code.

III.

THE DISTRICT COURT PROPERLY EXERCISED ITS DISCRETION IN NOT REQUIRING APPELLEES TO SELL BULK GRISEOFULVIN AND TO LICENSE THEIR GRISEOFULVIN PATENTS

A. The Relief Ordered by the District Court is More than Adequate to Cure the Violation and the Ill Effects of the Illegal Conduct.

In approaching the relief issue, it must be borne in mind that the restraint on alienation violations found in this case had no effect on competition in the U.S. griseofulvin market (see pp. 11-12, 17-19, above), and that that market, although small and shrinking, was competitive (see pp. 12-17, above). Thus, on the facts of this case, some of the relief standards suggested in the Government's brief are inapplicable, such as that the decree "pry open to competition" a market which "has been closed by defendants' illegal restraints" (see p. 48, citing *International Salt Co.* v. *United States,* 332 U.S. 392, 401 (1947)), or that it be effective "to restore competition" (see p. 44, citing *Ford Motor*

---

[52] This Court has pointed attention to the fact that direct appeals under the Expediting Act "not only place a great burden on the Court but also deprive us of the valuable assistance of the Courts of Appeals," *United States* v. *Singer Mfg. Co.*, 374 U.S. 174, 175 (1963); see also Opinion of C. J. Burger, dissenting in *Ford Motor Company* v. *United States*, 31 L. Ed. 2d 492, 514 (1972) and the concurring Opinions of Mr. Justice Clark and Mr. Justice Harlan in *Brown Shoe Company* v. *United States*, 370 U.S. 294, 355, 363-365 (1962).

Co. v. *United States,* 31 L. Ed. 2d 492, 501 (1972); *United States* v. *DuPont & Co.,* 366 U.S. 316, 326 (1961)).[53]

The District Court applied the appropriate relief standards in this case, which was "that the remedy shall be as effective and fair as possible in preventing continued or future violations of the Antitrust Act in the light of the facts of the particular case," *United States* v. *National Lead Co.,* 332 U.S. 319, 335 (1947), and should serve to "cure the ill effects of the illegal conduct, and assure the public freedom from its continuance," *United States* v. *U. S. Gypsum Co.,* 340 U.S. 76, 88 (1950); *Ford Motor Co.* v. *United States, supra,* at p. 501. It satisfied these standards by entering a decree which was not limited to griseofulvin, but covered all drugs; comprehensively enjoined not only bulk resale restrictions but also bulk sale restrictions in patent licenses; gave the Government far-reaching visitatorial rights; and contained an appropriate retention of jurisdiction clause.[54]

---

[53] Divestiture and other unusual injunctive relief designed to restore competition were required in these two cases because they were "necessary and appropriate in the public interest to eliminate the effects of [an] acquisition offensive to the statute," see *United States* v. *DuPont & Co.,* 353 U.S. 586, 607-8 (1957). There is no similarity between an acquisition, which completely changes the market structure of an industry, and the antitrust violation in this case, which did not affect the competitive structure of the market.

[54] The relief in this case was more sweeping than that which emerged from this Court's ruling in *Schwinn,* where the illegal territorial and customer restraints on alienation affected 22 wholesale distributors and 5,500 retailers in a much larger industry, see 291 F.Supp. 564 (N.D. Ill. 1968), or in the decree consented to by the Government in *United States* v. *Farbenfabriken Bayer, A.G.,* 1969 Trade Cases ¶ 72,918 (D.D.C.), a case involving pervasive resale restrictions in the chemical industry. See J.S. 68-69; App. 343-345.

The Government's request for compulsory sale and patent licensing relief is predicated on incorrect and speculative assumptions as to the competitive status of the griseofulvin market, the alleged competitive effect of the bulk resale violation and the reasonableness of prices and profits (see particularly p. 14, fns. 9, 10 and pp. 16-17, fns. 13 to 16, inclusive). The award of the requested relief would constitute an impermissible effort "to realign and redirect effective and lawful competition where it already exists," *United States* v. *National Lead Co., supra,* at 353.

This Court has said that the "[t]he framing of decrees should take place in the District rather than in Appellate Courts," *International Salt Co.* v. *United States, supra,* at pp. 400-1, and that, "[i]n approaching the question of relief, we must remember our function is not to sit as a trial court," *International Boxing Club* v. *United States,* 358 U.S. 242, 253 (1959). "The District Court is clothed with 'large discretion to fit the decree to the special needs of the individual case,'" *Ford Motor Co.* v. *United States, supra,* at 501 (citing in support *International Salt,* at 401, and *United States* v. *DuPont,* 353 U.S. at 608). There is no basis here for disturbing the District Court's exercise of discretion in ordering relief that was more than adequate to cure the violation and the ill effects of the illegal conduct.

B. There is no Basis in the Prior Decisions of this Court for the Ordering of Compulsory Sale and Patent Licensing Relief.

Where this Court has approved judgments involving compulsory sale or compulsory leasing, it has done so only when the defendants have monopolized a market in violation of Section 2 of the Sherman Act and the

illegal monopolization had been accomplished by a refusal to sell or lease. In such situations, the remedy of compulsory sale or compulsory lease was the obvious antidote for the competitive evil done. See *International Boxing Club* v. *United States*, 358 U.S. 242 (1959); *Besser Mfg. Co.* v. *United States*, 343 U.S. 444 (1952); *United States* v. *United Shoe Machinery Co.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954).[55] This case, on the other hand, involved a violation of Section 1 of the Sherman Act, as the result of a bulk resale restriction (now terminated for about five years, see p. 11, above), which the District Court found not to have resulted in a current monopoly condition (J.S. 68) and which the record shows had no effect on competition in the griseofulvin market (see pp. 17 to 19, above). The disparity between the two kinds of situations is such as to suggest that the ordering of compulsory sales relief in this case would have been an abuse of judicial discretion.[56]

The Government's request for compulsory patent licensing is based on two arguments, which although directed to Glaxo's microsize patent and not to ICI's dosage patent, are worth discussing, because they

---

[55] *International Salt Co.* v. *United States*, *supra*, involving an illegal tie-in in connection with the leasing of machinery, is inapposite. The Court's decree did not give International's lessees the right to buy or to lease machines, but only required it to distribute the machines "on non-discriminatory terms and conditions."

[56] Given the foregoing, it is perhaps unnecessary to point out that the award of compulsory sales relief would force ICI to breach a contractual obligation to AMHO, a party not before the Court, which had, in reliance on its legally unchallenged exclusive distributorship, invested heavily in putting and keeping griseofulvin on the market (see J. S. 67 and pp. 13-14, above).

illustrate the Government's ignorance of market realities. The first argument assumes that the Government will obtain compulsory sale relief and the "not wholly conjectural" possibility that, in order to frustrate this relief, the appellees will abandon the presumably profitable U. S. griseofulvin market (see p. 50 of Government brief). It has just been shown that the Government is not entitled to compulsory sale relief, and it is most "unrealistic" to suggest that the appellees would abandon the profitable U. S. market.[57]

The other argument is that the compulsory licensing of Glaxo's microsize patent is necessary in order to create competitive pricing at the bulk manufacture level. Here also, the Government's argument for compulsory patent licensing assumes that it will obtain compulsory sales relief, to which it is not entitled.[58] To the extent that this argument assumes that domestic firms are in a position to manufacture regular form griseofulvin, it is significant to note that, despite their size and financial resources, neither AMHO, Schering or J & J have seen fit to engage in the manufacture of bulk griseofulvin (see pp. 5-6 of the Government brief). This is probably due to the small size of the

[57] This is the kind of purely speculative contingency that can readily be accommodated under the "retention of jurisdiction" clause of the Final Judgment.

[58] There is nothing in the record to indicate that ICI's and Glaxo's bulk prices are not competitive, and the independent drug houses have in their affidavits said that they could live most comfortably with those prices. Also, the Government ignores the fact that bulk microsize griseofulvin is obtainable from AMHO, see pp. 15 to 17, above.

bulk market not justifying the costs involved in the manufacture of bulk griseofulvin (see App. 46-47, 62-63).[59]

Even if the Government's arguments had any practical business cogency, they would not legally justify the award of compulsory patent licensing relief. As the District Court found, the record in this case contains no showing that Glaxo or ICI abused their patent rights, or licensed them in violation of the antitrust laws (J.S. 69; see pp. 19 to 21, 27 to 29, above). Such illegal licensing practices, with definite anti-competitive consequences, were abundantly shown in the decisions of this Court relied on by the Government, *Besser, Mfg. Co.* v. *United States, supra*, p. 47; *United States* v. *United States Gypsum Co., supra*, p. 45; *United States* v. *National Lead Co., supra* p. 45; *Hartford-Empire Co.* v. *United States*, 323 U.S. 386 (1945), *clarified*, 324 U.S. 570 (1945); cf. *United States* v. *Loew's, Inc.*, 371 U.S. 38 (1962) (copyright licenses involved in illegal tie-ins).[60]

---

[59] The independent or generic firms have not asked for patent licensing relief, recognizing the high costs involved in even a small operation (App. 170).

[60] Both the cases cited here and the compulsory sale cases cited on p. 47, above, belie the Government's argument that it is impossible to show the effect of an illegal practice and that the determination of such effect "would involve the courts in an impossible inquiry" (p. 53 of Government brief), see App. 332-335.

CONCLUSION.

The judgment of the District Court should be affirmed.

Respectfully submitted,

SIGMUND TIMBERG
815 15th Street, N. W.
Washington, D. C. 20005

PAUL N. KOKULIS
LAWRENCE A. HYMO
1801 K Street, N. W.
Washington, D. C. 20006

Attorneys for Appellee
Imperial Chemical
Industries Limited

August, 1972